

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Fiscal Year Ending September 30, 2003

## I. DESCRIPTION OF BUSINESS

The Export-Import Bank of the United States (Ex-Im Bank or Bank) supports the financing of U.S. exports of goods and services, thereby helping to maintain and create U.S. jobs. In financing exports, Ex-Im Bank supplements private sector financing by assuming credit risks the private sector is unable or unwilling to accept.

With nearly 70 years of experience, Ex-Im Bank has supported more than \$437 billion of U.S. exports, primarily to developing markets.

The Export-Import Bank of the United States was established by executive order of President Franklin D. Roosevelt in 1934 as a District of Columbia banking corporation. The Export-Import Bank Act of 1945 reincorporated Ex-Im Bank as a U.S. government corporation. This Act, which has been amended by Congress over the years, is the basic legal authority for Ex-Im Bank's operations. The most recent amendment to the Act was the Export-Import Bank Reauthorization Act of 2002, which reauthorized Ex-Im Bank through September 30, 2006, and increased its financing capacity.

### MISSION

Ex-Im Bank is the official export credit agency of the United States. The purpose of Ex-Im Bank is to facilitate U.S. exports by providing competitive export financing in situations where: (1) U.S. exporters are facing foreign competition backed by officially supported financing, or (2) the private market is unwilling or unable to offer this financing. In either case, Ex-Im Bank financing is predicated on a determination that reasonable assurance of repayment exists. Ex-Im Bank enables U.S. companies — large, medium-sized and small — to turn export opportunities into sales that help to maintain and create U.S. jobs and contribute to a stronger national economy.

The Bank provides loan guarantees and direct loans (buyer financing), working capital guarantees (pre-export financing), and export credit insurance. On average, 85 percent of the Bank's transactions directly benefit U.S. small businesses.

## PRODUCTS

**Loan Guarantees:** Ex-Im Bank loan guarantees cover the repayment risks on the foreign buyer's debt obligations incurred to purchase U.S. exports. Ex-Im Bank guarantees to a lender that, in the event of a payment default by the borrower, the Bank will pay to the lender the outstanding principal and interest on the loan. Ex-Im Bank's comprehensive guarantee covers 100 percent of the commercial and political risks for up to 85 percent of the U.S. contract value of the export transaction.

**Direct Loans:** The Direct Loan Program is a foreign buyer credit program in which Ex-Im Bank makes a loan to a foreign buyer to purchase U.S. exports. Ex-Im Bank's loan disbursements go directly to the U.S. exporter as the export products are shipped to the foreign buyer.

**Working Capital Guarantees:** The Working Capital Guarantee Program is a pre-export financial tool to enable U.S. exporters to obtain necessary working capital in order to fulfill export sales orders. Ex-Im Bank's working capital guarantees enable U.S. exporters to obtain loans to produce or buy goods or services for export. These working capital loans, made by commercial lenders and backed by the Bank's guarantee, provide exporters with the liquidity to accept new export business, grow international sales and compete more effectively in the international marketplace.

**Export Credit Insurance:** The Export Credit Insurance Program helps U.S. exporters develop and expand their overseas sales by protecting them against loss should a foreign buyer or other foreign debtor default for political or commercial reasons.

## II. NEW BUSINESS

The amount of new loans, guarantees and insurance that Ex-Im Bank authorizes each year is dependent on export sales by U.S. exporters who need Ex-Im Bank's export credit support to win the export sales. This, in turn is dependent on international economic and financial conditions and on the competitiveness of U.S. products in world markets.

### FY 2003 AUTHORIZATIONS

Exhibit 1 shows authorizations for the past two fiscal years. During FY 2003, Ex-Im Bank authorized \$10.5 billion of loans, guarantees and insurance, an increase of almost 4 percent over the \$10.1 billion authorized in FY 2002.

Authorizations have fluctuated from \$9 billion to \$13 billion during the past five years as shown in Exhibit 2.

**Exhibit 1: Authorizations**

	FY 2003	FY 2002
(in millions)	Authorizations	Authorizations
<b>LONG-TERM</b>		
Loans	\$52.7	\$295.6
Guarantees	6,422.9	6,180.2
Subtotal, Long-Term	6,475.6	6,475.8
<b>MEDIUM-TERM</b>		
Loans	5.6	0.0
Guarantees	554.1	543.1
Insurance	678.4	666.8
Subtotal, Medium-Term	1,238.1	1,209.9
<b>SHORT-TERM</b>		
Working Capital	768.0	684.8
Insurance	2,025.5	1,748.7
Subtotal, Short-Term	2,793.5	2,433.5
<b>Total Authorizations</b>	<b>\$10,507.2</b>	<b>\$10,119.2</b>

The increase in authorizations in FY 2003 over the prior year is attributable mainly to an increase in authorizations of short-term insurance for U.S. exports and long-term guarantees for exports of U.S. commercial jet aircraft.

### ESTIMATED COST OF NEW AUTHORIZATIONS UNDER THE CREDIT REFORM ACT

Under the Federal Credit Reform Act of 1990 (P.L. 101-508), which took effect on October 1, 1992, U.S. government lending agencies are required to estimate the cost of making their loans and loan guarantees and to seek an appropriation from Congress to cover that cost. Loans and guarantees may not be committed unless sufficient appropriations are available to cover the calculated cost.

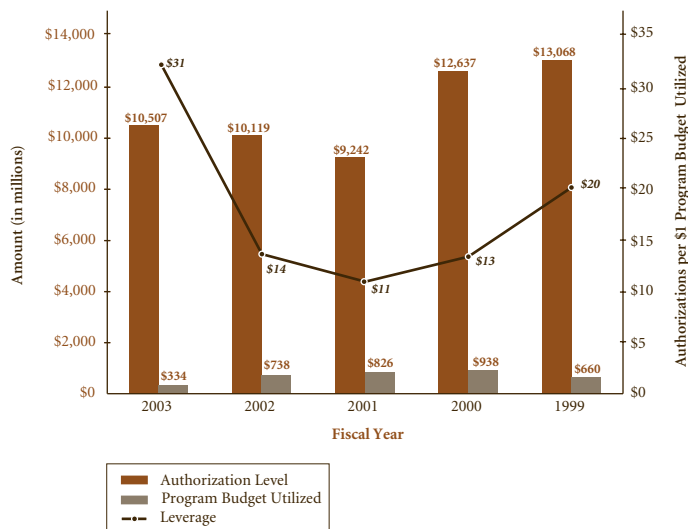
Under credit reform, the U.S. government budgets for the present value of the estimated cost of credit programs not covered by fees, excluding administrative expenses. This cost, known as the "subsidy cost" or "program budget" is defined as the net present value of all the cash flows of the credits to and from the U.S. government. Agencies must establish cash flow estimates for expected defaults, fees and recoveries to estimate the subsidy cost as a part of the budget process.

## FY 2003 PROGRAM BUDGET COSTS

The program budget required, if any, depends on the fee charged and the risk level of each authorization. Due primarily to a change in the Interagency Country Risk Assessment System (ICRAS) Risk Premium (see Significant Factors Influencing Financial Results section), the FY 2003 program budget costs are significantly lower than the previous year. Leverage is the amount of authorizations supported by each dollar of program budget. In FY 2003, each \$1 million in program budget was leveraged into \$31 million in authorizations.

Exhibit 2 shows the total amount authorized and the corresponding program budget costs and leverage for the past 5 years. Authorization levels since FY 2001 have been steadily increasing. The program budget required to support these commitments has been decreasing due to a lowering of the ICRAS risk premium for most risk levels (see ICRAS Risk Premia section). As a result, while in FY 2002 every dollar of program budget supported \$14 dollars of export credit authorizations, in FY 2003 every dollar of program budget supported \$31 dollars of authorizations, an increase of 121 percent.

**Exhibit 2: Authorization Levels and Program Budget Required**



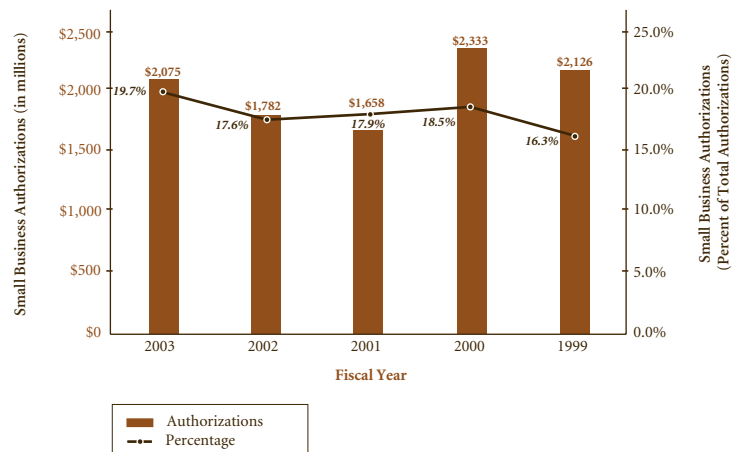
## SMALL BUSINESS AUTHORIZATIONS IN FY 2003

A major goal of Ex-Im Bank is to expand U.S. small business exports. Ex-Im Bank offers two products that primarily benefit small business: working capital guarantees and short-term insurance.

In FY 2003 Ex-Im Bank supported \$768 million in authorizations under the Working Capital Program and \$2,026 million under the Short-Term Insurance Program.

Exhibit 3 shows the total dollar amount of authorizations for small business exports, together with the percentage of these authorizations of the total authorizations for fiscal years 1999 through 2003.

**Exhibit 3: Small Business Authorizations**



### III. FINANCIAL RESULTS OF OPERATIONS

The following table summarizes certain selected financial data from the financial statements as of the end of the fiscal year. More detailed financial information can be found in the financial statements.

#### Exhibit 4: Selected Financial Data

(in millions)	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Cash	\$5,776	\$7,642	\$7,133	\$9,087	\$9,386
Loans Receivable, Net	5,893	5,900	5,855	5,726	5,831
Receivable from Subrogated Claims, Net	1,504	1,776	2,141	2,107	2,317
Total Borrowings	8,715	7,443	7,976	7,752	7,825
Allowance for Guarantees and Insurance	7,264	7,070	6,412	7,030	6,335
Amounts Payable to the U.S. Treasury	1,944	3,621	557	1,575	2,028
Total Stockholders Equity/ (Deficiency)	(4,801)	(3,663)	(642)	(173)	184
Operating Income	754	908	866	1,047	922
Provision for Credit and Claim Losses	113	726	(195)	701	707
Net Income/(Loss)	641	182	1,061	346	214
Guarantees and Insurance Exposure	\$46,838	\$43,677	\$43,630	\$47,414	\$43,781

#### ASSETS

Cash decreased by \$1,866 million in FY 2003 from \$7.6 billion at the end of FY 2002 to \$5.8 billion at the end of FY 2003. The decrease is due to payments made to the U.S. Treasury.

Ex-Im Bank's net loans receivable balance decreased slightly from \$5.9 billion at the end of FY 2002 to \$5.89 billion at the end of FY 2003. Gross loans receivable decreased slightly from \$10.3 billion for FY 2002 to \$10.0 billion for FY 2003 while the allowance for loan losses decreased from \$2.3 billion for FY 2002 to \$2.0 billion for FY 2003. A further discussion of the allowance for losses is below. Net receivables from subrogated claims decreased slightly to \$1.5 billion for FY 2003. Gross claims receivable decreased slightly from \$4.1 billion for FY 2002

to \$4.0 billion for FY 2003. The allowance for claim losses decreased from \$1.9 billion for FY 2002 to \$1.6 billion for FY 2003. Accrued interest and fees receivable and other assets increased from \$145 million at September 30, 2002, to \$152 million at September 30, 2003.

#### LIABILITIES

Total liabilities decreased by \$197 million, from \$19.1 billion at the end of FY 2002 to \$18.9 billion at September 30, 2003.

Ex-Im Bank borrows from the U.S. Treasury for its cash needs for loan disbursements and claim payments that are in excess of amounts appropriated for claim losses. Outstanding borrowings

from the U.S. Treasury increased from \$6.7 billion at the end of FY 2002 to \$7.3 billion at September 20, 2003. This increase is due primarily to an increase in loan disbursements in FY 2003.

The allowance for guarantees and insurance increased from \$7.1 billion at September 30, 2002, to \$7.3 billion at September 30, 2003, which is discussed in more detail below.

Amounts payable to the U.S. Treasury decreased from \$3.6 billion at the end of FY 2002, to \$1.9 billion at September 30, 2003. Under credit reform procedures, U.S. government credit programs must estimate at the end of each fiscal year the amounts that are necessary to hold in their financing accounts to cover future losses under the outstanding balances of credits approved on or after October 1, 1992, when credit reform provisions became effective. These estimates take into account anticipated future interest earned on the balances in the financing accounts as well as the estimated amounts and timing of losses and recoveries. As of the end of FY 2003, Ex-Im Bank estimated that \$1.9 billion was needed in the Bank's financing accounts, and the unneeded balance of \$1.9 billion will be returned to the U.S. Treasury. As explained in Notes 1 and 2 to the financial statements, this estimate differs in significant ways from the calculation for the allowance for credit losses under accounting principles generally accepted in the United States of America (GAAP).

## **EQUITY**

Total stockholder's deficiency increased from \$3.7 billion at the end of FY 2002 to \$4.8 billion at the end of FY 2003. This increase is primarily the result of the return of excess funds from the financing accounts to the U.S. Treasury, as described above.

## **NET INCOME**

Net income increased from \$182 million in FY 2002 to \$641 million in FY 2003. Net income was higher as a result of a smaller provision charged to FY 2003 income of \$113 million, as opposed to \$726 million in FY 2002, to reflect a net overall improvement in the average risk in the medium-term and long-term portfolio from 5.68 in 2002 to 5.49 in 2003 and the change in methodology due to FIN 46.

## **OPERATING INCOME**

Operating income decreased from \$908 million in FY 2002 to \$754 million in FY 2003. Operating income is the net interest income plus the non-interest income minus the non-interest expense. The operating income was lower in FY 2003 due to a decrease in the interest on loans.

## **INTEREST INCOME**

For FY 2003 total interest income was \$924 million, less than the \$1,168 million of interest income in FY 2002. Interest accrued on loans and rescheduled claims decreased from \$827 million in FY 2002 to \$621 million in FY 2003. The weighted-average-interest rate on Ex-Im Bank's performing loan and rescheduled claims portfolio decreased from 6.38 percent at year-end FY 2002 to 6.13 percent at year-end FY 2003. The total average loan and rescheduled claims balance outstanding decreased from \$12,653 million in FY 2002 to \$12,520 million in FY 2003. Additionally, Ex-Im Bank collected \$32 million less cash in interest on non-accruing loans in FY 2003 than in FY 2002.

## **INTEREST EXPENSE**

Interest expense, primarily on Ex-Im Bank's borrowings from the U.S. Treasury, totaled \$492 million in FY 2003, a \$5 million increase from the \$487 million in FY 2002. This increase was due to the inclusion of interest on borrowings consolidated from variable interest entities (VIEs) in FY 2003.

## **NON-INTEREST INCOME**

Income from commitment fees, exposure fees, guarantee and insurance fees and premiums, and other income totaled \$389 million in FY 2003, an \$89 million increase from the \$300 million in FY 2002. Most of this increase was due to the impact of Fin 45 requiring guarantee fees to be considered in determining the fair value of guarantees for guarantees entered into after December 31, 2002.

## **NON-INTEREST EXPENSE**

Ex-Im Bank receives an appropriation from Congress each year to cover its administrative expenses. For FY 2003, Ex-Im Bank's administrative expenses, on an accrual basis, totaled \$66 million. Of that amount, \$40 million were for salaries and benefits. Ex-Im

Bank's administrative expenses in FY 2002 totaled \$56 million, including \$37 million for salaries and benefits. Of Ex-Im Bank's 396 staff members at the end of FY 2003, 369 are located in Washington, D.C., with the remainder located in five regional offices. Staffing levels have remained almost constant for the last two fiscal years.

Other non-interest expenses amounted to \$0.1 million in FY 2003, a decrease of \$17 million from the \$17 million incurred in FY 2002. Most of the decrease in FY 2003 is primarily due to the change in stock value related to a claim recovery.

## PROVISION FOR CREDIT AND CLAIMS LOSSES

Ex-Im Bank evaluates its loan and guarantee portfolio to establish an allowance for credit and claims losses. The change in the allowance from one year to the next, adjusted for net write-offs, is the provision for losses that is charged to that year's income. For FY 2003, the provision for losses charged to income was \$113 million. In FY 2002, it was \$726 million. The allowance for credit losses is shown in detail in Exhibit 5.

### Exhibit 5: Allowance for Credit Losses

(in millions)	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
<b>BALANCE AT BEGINNING OF YEAR:</b>					
Allowance for Loan Losses	\$2,341.0	\$2,635.5	\$2,149.9	\$2,135.0	\$1,850.6
Allowance for Claim Losses	1,910.8	1,608.2	1,691.7	1,760.7	1,258.0
Allowance for VIE Lease Receivables	N/A	N/A	N/A	N/A	N/A
Allowance for Guarantees and Insurance	7,069.6	6,411.5	7,030.0	6,335.1	6,430.7
<b>Total</b>	<b>11,321.4</b>	<b>10,655.2</b>	<b>10,871.6</b>	<b>10,230.8</b>	<b>9,539.3</b>
<b>PLUS NET (WRITE-OFFS)/RECOVERIES:</b>					
Loans	(216.0)	(43.6)	(1.7)	(28.9)	(9.1)
Claims	(356.0)	(16.4)	(19.6)	(31.3)	(6.6)
<b>Total</b>	<b>(572.0)</b>	<b>(60.0)</b>	<b>(21.3)</b>	<b>(60.2)</b>	<b>(15.7)</b>
<b>PLUS PROVISION CHARGED TO OPERATIONS:</b>					
Provision for Loan Losses	(149.3)	(250.9)	487.3	43.8	293.5
Provision for Claim Losses	31.5	319.0	(63.9)	(37.7)	509.3
Provision for VIE Lease Receivables Losses	37.0	N/A	N/A	N/A	N/A
Provision for Guarantees and Insurance	194.0	658.1	(618.5)	694.9	(95.6)
<b>Total</b>	<b>113.2</b>	<b>726.2</b>	<b>(195.1)</b>	<b>701.0</b>	<b>707.2</b>
<b>EQUALS BALANCE AT END OF YEAR:</b>					
Allowance for Loan Losses	1,975.7	2,341.0	2,635.5	2,149.9	2,135.0
Allowance for Claim Losses	1,586.3	1,910.8	1,608.2	1,691.7	1,760.7
Allowance for VIE Lease Receivables	37.0	N/A	N/A	N/A	N/A
Allowance for Guarantees and Insurance	7,263.6	7,069.6	6,411.5	7,030.0	6,335.1
<b>Total</b>	<b>10,862.6</b>	<b>11,321.4</b>	<b>10,655.2</b>	<b>10,871.6</b>	<b>10,230.8</b>
<b>Total Exposure</b>	<b>\$60,812.0</b>	<b>\$58,117.6</b>	<b>\$58,425.5</b>	<b>\$61,595.7</b>	<b>\$58,417.7</b>
Allowance as % of Exposure	17.9%	19.5%	18.2%	17.6%	17.5%

## MAJOR WORKOUTS

Ex-Im Bank is in the process of restructuring 12 major impaired credits (where the aggregate exposure to the borrower is in excess of \$20 million) with a total exposure of \$747 million, down from 14 credits and \$1.9 billion at September 30, 2002. These credits supported the export of U.S. products and services to projects and buyers in Indonesia, Mexico, India, Argentina, Brazil, Thailand, the Philippines and Pakistan. All of these companies have other lenders with whom Ex-Im Bank is participating in the restructuring processes.

The four largest restructurings are Uch Power Limited, a power generation company located in Pakistan; Central Puerto, a power generation company located in Argentina; Asia Pulp and Paper,

an Indonesian pulp and paper manufacturing company; and Thai Petrochemical Industry Co., a diversified fully integrated petrochemical company in Thailand.

## PARIS CLUB ACTIVITIES IN FY 2003

The Paris Club is a group of government creditors that meets periodically in Paris to consider rescheduling their loans to certain debtor countries that are unable to service their debts. During FY 2003, Ex-Im Bank signed and implemented bilateral agreements to provide public sector debt relief in the form of debt forgiveness and/or debt rescheduling, including capitalized interest, to 13 countries. In FY 2002, 14 countries received either debt forgiveness or debt rescheduling.

### Exhibit 6: Paris Club Bilateral Agreements

(in thousands)		FY 2003
Country	Principal Forgiven	Debt Rescheduled
Bolivia	\$10,047	-
Cameroon	3,381	-
Côte d'Ivoire	39,397	\$26,715
DRC (Zaire)	455,877	597,227
Ghana	2,536	-
Indonesia	-	259,329
Macedonia	-	10,523
Mauritania	6,597	-
Nicaragua	2,339	-
Niger	602	-
Pakistan	-	220,053
Rwanda	882	-
Yugoslavia	154,728	274,014
<b>Total</b>	<b>\$676,386</b>	<b>\$1,387,861</b>

		FY 2002
Country	Principal Forgiven	Debt Rescheduled
Cameroon	\$5,296	\$213
Ecuador	-	9,748
Gabon	-	14,609
Ghana	-	2,622
Guinea	1	-
Honduras	464	345
Indonesia	-	145,504
Mozambique	48,156	-
Niger	246	-
Pakistan	-	45,021
Senegal	16	-
Tanzania	21,011	-
Uganda	178	-
Ukraine	-	183,026
<b>Total</b>	<b>\$75,368</b>	<b>\$401,088</b>

The amount written off to the reserve in fiscal year 2003 includes \$216.0 million in loan write-offs and \$356.0 million in claim write-offs for a total write-off of \$572.0 million. The difference between the reserve write-offs and Paris Club principal forgiveness reflect \$14.8 million of non-sovereign subrogated claims included in the reserve write-off but not included in the Paris Club principal forgiveness and \$119.2 million in capitalized interest not included in the reserve write-off but included in the Paris Club principal forgiveness.



## IV. SIGNIFICANT FACTORS INFLUENCING FINANCIAL RESULTS

The most significant factor that determines Ex-Im Bank's financial results and condition is a change in the risk level of Ex-Im Bank's loan, guarantee and insurance portfolio, and the adjustment to the allowance for credit losses that must be made to reflect those changes in risk. The level of risk of individual credits or groups of credits may change in an unpredictable manner as a result of international financial, economic and political events. Consequently, significant and unanticipated changes in Ex-Im Bank's allowance for credit losses may occur in any year.

Also, Ex-Im Bank makes fixed-rate loan commitments prior to borrowing to fund loans and takes the risk that it will have to borrow the funds at an interest rate greater than the rate charged on the credit. In the event this occurs, a U.S. Treasury appropriation account is available to Ex-Im Bank to cover the loss.

In fulfilling its mission to support the financing of U.S. exports, Ex-Im Bank must balance the risks associated with assuming credit and country risks that the private sector is unable or unwilling to accept with the requirement of reasonable assurance of repayment for its credit authorizations. A discussion of Ex-Im Bank's methodology for risk rating credits and establishing reserves follows.

The major risks to the Bank in its credit portfolio are repayment risk and concentration risk. Other risks the Bank must assess and attempt to minimize are operational risk and organizational risk.

**Repayment Risk:** The risk that a borrower will not pay according to the original agreement and that the Bank may eventually have to write-off some or all of the obligation. Repayment risk is primarily composed of:

- **Credit Risk:** The risk that an obligor may not have sufficient funds to service its debt.
- **Political Risk:** The risk that payment may not be made to the Bank, its guaranteed lender or an insured as a result of expropriation of the obligor's property, war, or inconvertibility of the obligor's currency into dollars.

**Concentration Risk:** Risks stemming from the composition of the credit portfolio as opposed to risks related to specific borrowers. The Bank has the following concentration risks:

- **Geographic Region.** The risk that events could negatively impact not only one country but at the same time many countries in an entire region. Fifty-eight percent of Ex-Im Bank's portfolio is contained in two geographic regions: Asia (33 percent) and Latin America (25 percent).
- **Industry:** The risk that events could negatively impact not only one company but many companies at the same time that are in the same industry. The Bank's credit exposure is highly concentrated by industry: fifty-eight percent of the Bank's credit portfolio is in three industries - airlines, oil and gas, and power (with aircraft representing 36 percent of the Bank's total exposure). Events impacting these industries are frequently international in nature and are not confined to a specific country or geographic area.
- **Obligor:** The risk that a lender's credit portfolio is disproportionately concentrated with one or a few borrowers. The Bank's 10 largest public sector obligors make up 27 percent of its portfolio, and its 10 largest private sector obligors make up 13 percent of its portfolio.

**Operational Risk:** The risk of material losses resulting from human error, system deficiencies and control weaknesses. Ex-Im Bank has established policies and procedures to mitigate operational risk.

**Organizational Risk:** The risk of loss to Ex-Im Bank due to the organizational environment - people and skills, incentives, culture and values. Ex-Im Bank hires highly qualified individuals and has a culture of rigorous risk assessment. Continual training opportunities are offered to all employees to maintain and enhance their high skill levels.

**Interest Rate Risk:** This risk is described in the above section in the discussion on fixed rate loans.

## THE INTERAGENCY COUNTRY RISK ASSESSMENT SYSTEM (ICRAS)

The Office of Management and Budget (OMB) established ICRAS to provide a framework for uniformly measuring the costs of the U.S. government's international credit programs across the various agencies that administer them. To operate this framework, OMB chairs an interagency working group composed of the agencies involved in international lending, as well as the Departments of State and Treasury, the Federal Deposit Insurance Corporation and the Federal Reserve Board. In addition, OMB consults annually with the Congressional Budget Office.



The ICRAS methodology determines both the risk levels for lending to sovereign governments as well as certain factors to be used in calculating the subsidy cost for transactions at the various risk levels.

One of OMB's key goals in developing this system was to pattern ICRAS after systems in the private sector. Therefore ICRAS adopts similar ratings and rating methodologies as the private rating agencies, such as Moody's, Standard & Poor's and Fitch IBCA.

## **RISK RATINGS**

The interagency group rates every country to which U.S. government agencies have outstanding loans or loan guarantees or are anticipating making new credits available. The interagency group has established 11 sovereign and nine non-sovereign risk categories and has current risk ratings for 184 markets.

Like the private sector risk-rating agencies, ICRAS rates countries on the basis of economic and political/social variables. Each country receives two ratings: a sovereign-risk rating and a private-risk rating. In keeping with the principle of congruence to private ratings, throughout the rating process analysts use private sector ratings as one of the benchmarks for determining the ICRAS rating. When ICRAS ratings significantly deviate from Moody's, S&P's, Fitch IBCA's or OECD ratings, the reasoning is substantiated in the ICRAS paper and is the subject of interagency discussion. This presumption serves as a key reference point throughout the ICRAS process.

The ratings are based, in general, on a country's (1) ability to make payments, as indicated by relevant economic factors, and (2) willingness to pay, as indicated by payment record and political and social factors. Four categories, ratings 1 through 4, are roughly equivalent to "creditworthy" or "investment grade" private bond ratings. Three categories, ratings 9 to 11, are for countries either unable to pay fully, even with extended repayment periods, or currently unwilling to make a good faith effort. In between are categories reflecting various degrees of potential or actual payment difficulties.

## **ICRAS RISK PREMIA**

In order to determine the cost associated with the risk of lending to a category of credits, OMB applies a risk premium to each category that reflects the expected losses.

OMB bases its calculations of the risk premia on investors' risk-return perceptions on international debt instruments. The premia were established using data from international debt markets that reflected changes in financial market conditions over the past seven years. An extensive analysis was done of international lending rates so that the premia would most accurately reflect the market's evaluation of default risk.

Agencies apply these premia by comparing the present value cash flows discounted using a risk-free U.S. Treasury rate, against the present value of identical cash flows discounted by a risk-adjusted discount rate built from the risk-free U.S. Treasury rate plus the historical average spread for the risk category of the transaction under evaluation (the risk premia). The difference between these two present values is the present value of estimated defaults. This present value default amount is spread over the maturity of the proposed transaction and is discounted using the standardized OMB Credit Subsidy Calculator.

In 2002, OMB adjusted the risk premia for certain noncredit factors so that the revised risk premia reflect only estimates of probable credit losses. The risk premia were derived from the historical average interest rate differences or "spreads" between U.S. Treasury instruments and similar-term dollar-denominated sovereign bonds of similarly rated countries.

## **TRANSACTION RISK EVALUATION**

Ex-Im Bank requires a reasonable assurance of repayment for all credit authorizations. The Credit and Risk Management Division evaluates applications for loan guarantees, export credit insurance and direct loans, with the exception of transportation and structured finance transactions, to assess if those applications meet Ex-Im Bank risk criteria. Specialists in the Transportation Division and Structured Finance Division analyze credit applications for those types of transactions. The Bank's board of directors, credit committee or a bank officer acting pursuant to delegated authority makes the final determination of reasonable assurance of repayment taking into consideration staff recommendations.

Transactions resulting in over \$10 million in exposure generally require the approval of the board of directors. All other transactions require the approval of either 1) the Bank's credit committee, whose voting members consist of five designated senior managers and a member of the board of directors serving as an ex-officio member, or 2) a Bank officer acting pursuant to authority delegated by the board of directors.

## PORTFOLIO RISK MONITORING AND EVALUATION

Ex-Im Bank continuously monitors its portfolio of credits after they have been approved. Monthly reports are prepared for the board of directors and management detailing and analyzing the portfolio risk profile and any significant changes from the prior report. Credits to obligors with total Ex-Im Bank exposure of \$20 million or more are individually re-evaluated quarterly after approval.

## V. RISK PROFILE OF EXPOSURE

### FY 2003 AUTHORIZATIONS

Ex-Im Bank classifies credits into 11 risk categories, with level 1 being the lowest risk. Ex-Im Bank's support usually is not required for credits rated level 1, and Ex-Im Bank generally does not authorize new credits that would have a higher risk than level 8. On this scale, level 3 is approximately equivalent to Standard and Poor's BBB, level 4 approximates BBB-, and level 5 approximates BB.

The overall weighted-average-risk rating of FY 2003 authorizations was 5.03, slightly more risky than the 4.90 for authorizations made in FY 2002. Sixty percent of Ex-Im Bank's medium-term and long-term authorizations in FY 2003 fell in the level 3-to-5 range (BBB to BB) while 24 percent were rated level 7 or 8 (B or B-). The figures above do not include interest guaranteed on certain debt issues of Private Export Funding Corporation, which amounted to \$26 million in FY 2003 and \$85 million in FY 2002.

Exhibit 7 shows the risk profile of Ex-Im Bank's authorizations in FY 2003 and the past five-year average risk profile.

**Exhibit 7: FY 2003 Long-term and Medium-term Authorizations by Risk Category**

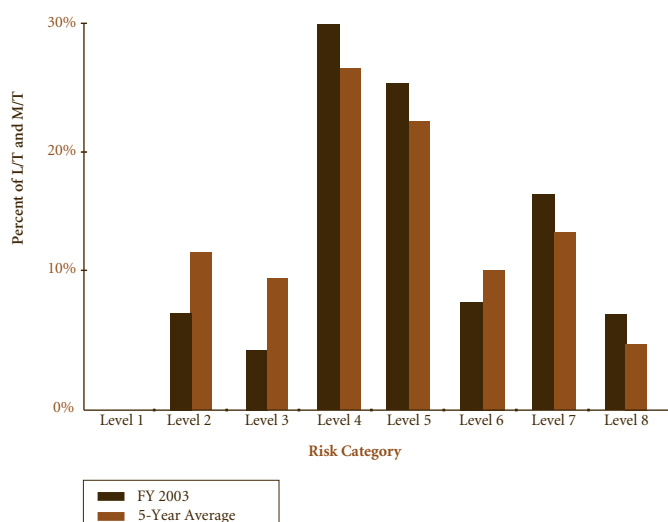


Exhibit 8 shows FY 2002 and FY 2003 medium-term and long-term authorizations by amount and risk category.

**Exhibit 8: Medium-term and Long-term Authorizations by Amount and Risk Category**

(in millions)			
Level	FY 2003	FY 2002	Difference
Level 1	0	0	0
Level 2	\$575.7	\$800.5	(\$224.8)
Level 3	351.4	1,869.3	(1,517.9)
Level 4	2,313.7	1,755.3	558.4
Level 5	1,951.9	969.7	982.2
Level 6	640.5	467.4	173.1
Level 7	1,287.7	1,257.1	30.6
Level 8	567.2	481.1	86.1
<b>Total</b>	<b>\$7,688.1</b>	<b>\$7,600.4</b>	<b>\$87.7</b>

## FISCAL YEAR-END EXPOSURE

Exhibit 9 summarizes total Ex-Im Bank exposure by type of exposure and shows each type of exposure as a percent of the total exposure at the end of the respective fiscal year.

### Exhibit 9: Exposure by Type and Percent

(in millions)	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Guarantees	\$40,025.7	\$38,595.9	\$36,948.2	\$36,944.2	\$34,063.1
Loans Receivable	9,998.5	10,324.2	10,614.6	9,948.5	10,125.7
Insurance	6,261.1	3,987.4	4,822.5	7,857.5	6,816.0
Receivables from Subrogated Claims	3,976.0	4,116.3	4,181.4	4,233.3	4,511.0
Undisbursed Loans	550.7	1,093.8	1,858.8	2,612.2	2,901.9
<b>Total Exposure</b>	<b>\$60,812.0</b>	<b>\$58,117.6</b>	<b>\$58,425.5</b>	<b>\$61,595.7</b>	<b>\$58,417.7</b>

(% to Total)	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Guarantees	65.9%	66.3%	63.1%	59.9%	58.3%
Loans Receivable	16.4%	17.8%	18.2%	16.2%	17.3%
Insurance	10.3%	6.9%	8.3%	12.8%	11.7%
Receivables from Subrogated Claims	6.5%	7.1%	7.2%	6.9%	7.7%
Undisbursed Loans	0.9%	1.9%	3.2%	4.2%	5.0%
<b>Total Exposure</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Total exposure over the five-year period has remained relatively constant at approximately \$60 billion. With respect to the total Ex-Im Bank exposure, the percentage of direct loans exposure (including undisbursed loans) has declined while the percentage of guarantee exposure has increased.

Exhibit 10 summarizes total Ex-Im Bank exposure by geographic region as of the end of the fiscal year. The table shows that the geographic exposure has been relatively stable over the past five years.

#### Exhibit 10: Geographic Exposure

(in millions)	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Asia	\$20,229.5	\$19,065.9	\$19,350.2	\$19,390.6	\$18,450.9
Latin America	14,983.9	15,710.7	14,814.4	14,591.5	14,840.3
Europe/Canada	10,491.1	10,069.7	10,029.2	10,618.9	9,558.4
Africa/Middle East	9,008.1	8,684.8	9,380.8	9,708.6	9,447.4
All Other	6,099.4	4,586.5	4,850.9	7,286.1	6,120.7
<b>Total Exposure</b>	<b>\$60,812.0</b>	<b>\$58,117.6</b>	<b>\$58,425.5</b>	<b>\$61,595.7</b>	<b>\$58,417.7</b>

(% to Total)	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Asia	33.3%	32.9%	33.0%	31.5%	31.5%
Latin America	24.6%	27.0%	25.4%	23.7%	25.4%
Europe/Canada	17.3%	17.3%	17.2%	17.2%	16.4%
Africa/Middle East	14.8%	14.9%	16.1%	15.8%	16.2%
All Other	10.0%	7.9%	8.3%	11.8%	10.5%
<b>Total Exposure</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The All Other category in Exhibit 10 includes undisbursed balances of short-term multibuyer insurance that is not allocated by region until shipment has taken place, and working capital guarantee exposure in the United States.

Exhibit 11 shows exposure by the major industrial sectors represented in the Bank's portfolio. The table shows increasing exposure in air transportation over the past five years.

#### Exhibit 11: Industry Exposure

(in millions)	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Air Transportation	\$21,659.1	\$19,816.8	\$18,364.4	\$18,107.4	\$16,460.9
Power Projects	7,067.6	8,154.8	8,383.0	8,676.7	8,378.8
Oil and Gas	6,166.9	6,275.5	6,475.9	6,091.0	6,446.2
Manufacturing	4,320.7	4,806.4	5,204.3	6,694.0	5,573.4
All Other	21,597.7	19,064.1	19,997.9	22,026.6	21,558.4
<b>Total Exposure</b>	<b>\$60,812.0</b>	<b>\$58,117.6</b>	<b>\$58,425.5</b>	<b>\$61,595.7</b>	<b>\$58,417.7</b>

#### (% to Total)

Air Transportation	35.6%	34.1%	31.4%	29.4%	28.2%
Power Projects	11.6%	14.0%	14.3%	14.1%	14.3%
Oil and Gas	10.1%	10.8%	11.1%	9.9%	11.0%
Manufacturing	7.1%	8.3%	8.9%	10.9%	9.5%
All Other	35.6%	32.8%	34.3%	35.7%	37.0%
<b>Total Exposure</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Of the portfolio at September 30, 2003, 54 percent represents credits to public sector obligors or guarantors (36 percent to sovereign obligors or guarantors and 18 percent to public non-sovereign entities); 46 percent represents credits to private sector obligors. A breakdown of public versus private sector exposure is shown in the following table.

#### Exhibit 12: Public and Private Obligors

Year-End	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Private Obligors	46%	43%	41%	41%	39%
Public Obligors	54%	57%	59%	59%	61%

## CHANGES IN THE PORTFOLIO RISK LEVEL

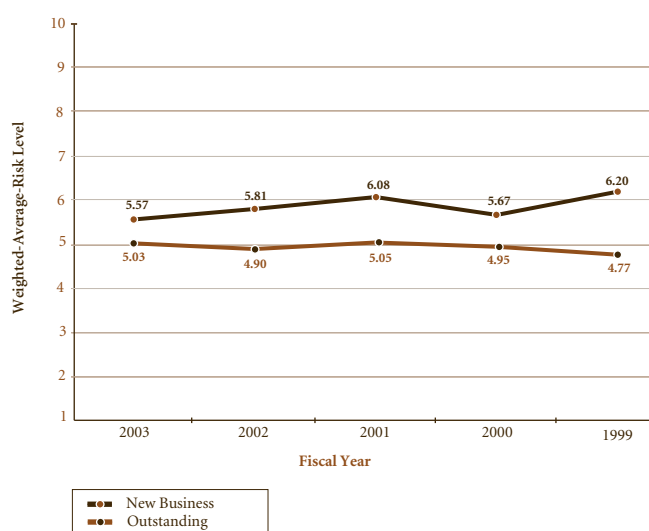
At the end of FY 2003, Ex-Im Bank had a portfolio of \$60.8 billion of loans, guarantees, insurance and outstanding claims receivable, only slightly higher than the balance of \$58.1 billion at the end of FY 2002. The weighted-average-risk rating of Ex-Im Bank's medium-term and long-term portfolio was 5.49 as of September 30, 2003, slightly lower than the weighted-average-risk rating of 5.68 as of September 30, 2002.

### Exhibit 13: Portfolio – Weighted-Average-Risk Level

	FY 2003	FY 2002	FY 2001	FY 2000	FY 1999
Medium-term and Long-term Portfolio					
Weighted-Average-Risk Level	5.49	5.68	5.87	5.54	5.94

Changes in Ex-Im Bank's overall portfolio risk credit level are highlighted in Exhibit 14. This chart shows the weighted-average-risk rating for new authorizations and outstanding business for the past five years. The exhibit shows the new business during the year and the portfolio as it exists at the beginning of the year. This compares to the weighted-average-risk level at the end of the year in Exhibit 13.

### Exhibit 14: Credit Quality – Risk Profile



The new business risk level in Exhibit 14 includes all medium-term and long-term transactions authorized in each respective fiscal year and reflects the weighted-average-risk rating for these authorizations. The outstanding risk level in Exhibit 14 represents the risk profile of the entire portfolio at the end of each respective fiscal year. For example the 2003 outstanding reflects the weighted-average-risk rating for the entire medium-term and long-term portfolio at the end of FY 2002 and re-rated in September 2003.

## VI. LOSS RESERVE METHODOLOGY

The process by which Ex-Im Bank determines its loss reserves for each fiscal year involves assessing the repayment risk of the credit, which includes both commercial and political risk factors, then calculating the loss reserve based on the percentage of loss associated with the risk level assigned to the credit.

Ex-Im Bank has separately determined loss reserves for short-term insurance exposure and for the risk of exposure concentration, both of which are discussed below.

### SOVEREIGN OBLIGOR RATINGS

Sovereign risk is associated with an obligor that conveys the full faith and credit of its country. To rate sovereign obligors, Ex-Im Bank relies on the risk levels assigned to sovereign countries by ICRAS.

## **NON-SOVEREIGN OBLIGOR RATINGS**

Semiannually, Ex-Im Bank makes a case-by-case assessment of the risk level of its largest corporate obligors (outstanding exposure in excess of \$20 million) in its non-sovereign portfolio. At September 30, 2003, these corporate entities represent 372 separate transactions and comprise 75 percent of Ex-Im Bank's total non-sovereign portfolio. The risk assessment is based on two major factors: the credit risk of the obligor and its industry sector and the risk associated with the country where the obligor is legally domiciled as a business entity. Airlines, large corporate and project finance cases are risk-rated based on risk-rating methodologies specific to those types of transactions.

To assess the obligor risk, the non-sovereign obligors are divided into four categories: (1) obligors in workout status, (2) obligors rated by third-parties rating agencies, i.e., Standard & Poor's and Moody's, (3) obligors not rated but publicly traded on local exchanges, and (4) obligors neither rated nor publicly traded on local exchanges.

After the political and commercial risks of the transaction are assessed, the transaction is assigned a risk rating based on the standard ICRAS classification. A major determinant of the risk rating is the sovereign-risk rating of the country in which the obligor or guarantor is located. Credit enhancements such as the availability of liens and off-shore escrow accounts are taken into account.

## **LOSS PERCENTAGE**

Each of the 11 risk levels are identified with a loss percentage to determine the overall allowance for credit losses. The loss percentage for each risk level is based on the risk premia model developed by OMB, discussed previously, to calculate subsidy costs.

## **ALLOWANCE FOR LOSSES ON NON-IMPAIRED LOANS AND CLAIMS RECEIVABLE**

For non-impaired loans and claims receivable, Ex-Im Bank determines the allowance using the OMB risk premia. The allowance for losses on this exposure is calculated using the credit loss estimate method. Consistent with FAS 5 and industry practice, this is an estimate of the loss expected due to credit risk and does not include non-credit factors that are included in the fair-market value method.

## **ALLOWANCE FOR LOSSES ON VIE LEASE RECEIVABLES**

The leases associated with consolidated VIEs are classified as direct financing leases in accordance with FAS 13, and the loss reserve is calculated according to the probable loss due to credit risk.

## **ALLOWANCE FOR LOSSES ON IMPAIRED LOANS AND CLAIMS RECEIVABLE**

Ex-Im Bank defines impaired credits as: (1) all delinquent (past due at least 90 days) loans and delinquent claims; (2) all rescheduled loans and rescheduled claims; and (3) all non-delinquent loans and claims risk-rated level 9 or higher risk.

Loss reserves on impaired credits are determined using the fair value method. This practice is consistent with FAS 114 guidance that requires impaired loans to be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price or the fair-market value of the collateral if the loan is collateral dependent.

## **ALLOWANCE FOR LOSSES ON GUARANTEES AND MEDIUM-TERM INSURANCE**

The allowance for losses on Ex-Im Bank's contingent liabilities for medium-term and long-term guarantees and medium-term insurance is determined using the fair-value method.

## **ALLOWANCE FOR LOSSES ON EXPORT CREDIT INSURANCE EXPOSURE**

Ex-Im Bank separately determines the allowance for losses for short-term export credit insurance. The methodology assumes that repayment of a portion of the shipments outstanding at fiscal year-end either may be already in default but not yet reported by the insureds or will be defaulted and become a claim in the future. Under this methodology, the allowance for losses provided for short-term export credit insurance exposure is a combination of the percentage of claims paid to total shipments and the percentage of claims recovered to claims paid over the last 15 years as a percentage of current shipments outstanding.



## ALLOWANCE FOR CONCENTRATION RISK

In addition to the loss reserves based on an obligor's individual risk rating, Ex-Im Bank also provides additional loss reserves to account for the risk of exposure concentration. The additional loss reserves is determined based on 5 percent of the combined exposure of five countries with the largest outstanding loan and claim exposures in Ex-Im Bank's portfolio. The 5 percent is a comprehensive factor that Ex-Im Bank management believes is reasonable and sufficient to account for the risk of exposure concentration.

## UNDISBURSED BALANCES

Ex-Im Bank's historical cancellation rate for authorized credits is 15 percent. Consequently, Ex-Im Bank records a 15 percent decrease for loss-reserve purposes to undisbursed balances.

## ALLOWANCE FOR LOSSES

The total allowance for losses (loss reserve) at the end of FY 2003 for loans, claims, guarantee and insurance commitments and lease receivables, is \$10,862.6 million, which is 17.9 percent of total exposure of \$60,812.0 million. This compares to the total loss reserve at September 30, 2002, for loans, claims receivable, and guarantee and insurance commitments of \$11,321.4 million that was 19.5 percent of total exposure of \$58,117.6.

## Exhibit 15: Loss Reserves and Exposure and Lease Receivables

### Loss Reserves

(in millions)	FY 2003	FY 2002
Allowance for Loan Losses	\$1,975.7	\$2,341.0
Allowance for Claim Losses	1,586.3	1,910.8
Allowance for VIE Lease Receivables	37.0	N/A
Allowance for Guarantees, Insurance and Undisbursed Loans	7,263.6	7,069.6
<b>Total</b>	<b>\$10,862.6</b>	<b>\$11,321.4</b>

### Total Exposure

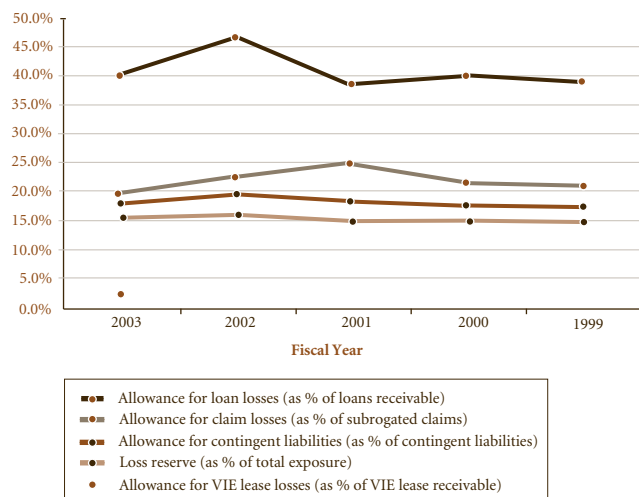
(in millions)	FY 2003	FY 2002
Loans Receivable	\$9,998.5	\$10,324.2
Receivables from Subrogated Claims	3,976.0	4,116.3
Guarantees and Insurance	46,286.8	42,583.3
Undisbursed Loans	550.7	1,093.8
<b>Total Exposure</b>	<b>\$60,812.0</b>	<b>\$58,117.6</b>
Loss Reserve as Percentage (%) of Total Exposure	17.9%	19.5%

Of Ex-Im Bank's \$11,204.3 million in loans and claims exposure, (excluding capitalized interest) as of September 30, 2003, \$4,774.9 million is classified as impaired. Loss reserves on the impaired portion of Ex-Im Bank's exposure are \$2,497.8 million for outstanding loans and claims.

Ex-Im Bank's exposure for guarantees, insurance and undisbursed loans is \$46,837.5 million as of September 30, 2003. Loss reserves on this exposure totals \$7,263.6 million.

The following chart illustrates the loss reserve balance, net of capitalized interest and unamortized discount and exposure fees, as a percentage of loans receivable, receivables from subrogated claims, contingent liabilities, VIE lease receivables, and total exposure, respectively.

## Loan Reserve Summary



## VII. CRITICAL ACCOUNTING POLICIES

Ex-Im Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America and general practices of the banking industry. Ex-Im Bank's critical accounting policies are described below.

### ALLOWANCE FOR LOSSES

Under SFAS No. 5, Ex-Im Bank is required to make an estimate of the impairment of its loan, guarantee and insurance portfolio and report that amount as an allowance for credit losses. To do this, Ex-Im Bank uses methodology related to the methodology developed by OMB to risk-rate new U.S. government loans and guarantees.

Under SFAS No. 114, Ex-Im Bank is required to measure impaired loans on the basis of the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price. This requires a judgment by management of when a loan is impaired. Ex-Im Bank defines impaired credits as: (1) all delinquent

(past due at least 90 days) loans and delinquent claims, (2) all rescheduled loans and rescheduled claims, and (3) all non-delinquent loans and claims risk rated level 9 or higher risk (see above for a more detailed discussion of how risk levels are determined).

Estimates of the level of risk in Ex-Im Bank's credit transactions are central to the application of both of the above accounting standards. The level of risk of credits may change in an unpredictable manner because of financial, economic and political events impacting specific companies and countries. Consequently, significant and unanticipated changes in Ex-Im Bank's allowance for credit losses may occur in any year.

### GUARANTEES

Under the provisions of FIN 45, Ex-Im Bank is required to recognize, at the inception of a guarantee, a liability for its fair value. FIN 45 applies to guarantees issued after December 31, 2002. For further information refer to Note 10 in the Notes to the Financial Statement.

### VARIABLE INTEREST ENTITIES

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities," which addresses the consolidation of certain entities when control exists through other than voting interests. Ex-Im Bank is the primary beneficiary of certain Variable Interest Entities (VIEs) that have been created in connection with security arrangements for certain export credits, primarily Ex-Im Bank guaranteed financing for exports of commercial jet aircraft.

The financial statements reflect the consolidation of all variable interest entities where Ex-Im Bank is the primary beneficiary and were established after January 31, 2003. For further information refer to Note 3 in the Notes to the Financial Statement.

### LOANS RECEIVABLE

Interest on the Bank's loans is accrued and taken into income as it is earned. The accrual of interest income on loans is discontinued for financial statement purposes if payment of principal or interest is delinquent for 90 days or more and the loan is not well secured and in the process of collection. Loans which have been non-accruing

and are current at fiscal year end only because previously delinquent installments have been rescheduled remain non-accruing. Loans which have been non-accruing and are brought current by cash payment (as opposed to rescheduling delinquent installments) and are classified as portfolio risk “6” or better at fiscal year end are made accruing at the next payment date, if the principal and/or interest is paid in full and timely (within 30 days of the due date). If the amount due is not paid in full or is late, the loan remains non-accruing.

Loans may be made non-accruing due to a specific cause (i.e. by agreement) which can occur anytime throughout the year. In these cases, interest stops accruing according to the terms dictated by the implementation of the event causing the non-accrual.

All interest receivable on a loan placed in non-accruing status is charged against interest income in the year the loan is placed in a non-accruing status. Any interest subsequently collected on the loan is taken into interest income on a cash basis.

Loans and claims receivable are written off when the Bank determines that the remaining balance of a loan or claim receivable is uncollectible. Government-wide debt relief initiatives may also require the Ex-Im Bank to write-off specific debt identified in the debt relief proposal.

## DEFERRED FEES

Refer to Note 1 in the Notes to Financial Statement Section.

## VIII. SIGNIFICANT FINANCIAL STATUTORY LIMITATIONS

Ex-Im Bank has several significant financial limitations that are contained in the Export-Import Bank Act of 1945, as amended and in various appropriation acts. The following exhibits summarize the status of those limitations as of September 30, 2003, as well as the utilization of available funding.

### Exhibit 16: Appropriations and Lending Authority

(in millions)	Available	Obligated	Balance
<b>PROGRAM APPROPRIATIONS</b>			
Non-Tied Aid			
Carry-over from Prior Year	\$296.5	\$181.2	\$115.3
Cancellations	103.2	103.2	0.0
FY 2003/06 Appropriation	509.6	49.7	459.9
<b>Total Non-Tied Aid</b>	<b>\$909.3</b>	<b>\$334.1</b>	<b>\$575.2</b>
Tied Aid			
Carry-over from Prior Year to FY 2003	\$260.5	\$0.0	\$260.5
Cancellations	0.0	0.0	0.0
<b>Total Tied Aid</b>	<b>\$260.5</b>	<b>\$0.0</b>	<b>\$260.5</b>
<b>Total Program Appropriations</b>	<b>\$1,169.8</b>	<b>\$334.1</b>	<b>\$835.7</b>
<b>ADMINISTRATIVE EXPENSE APPROPRIATION</b>			
	\$68.1	\$68.1	\$0.0
<b>STATUTORY LENDING AUTHORITY</b>			
	\$85,000.0	\$60,812.0	\$24,188.0

Tied-aid is government-to-government concessional financing of public sector capital projects in developing countries. Tied-aid terms usually involve total maturities longer than 20 years, lower than market interest rates, and/or direct grants.

### Exhibit 17: Program Budget Appropriations Available and Utilized

